10-2017

Northeast Minnesota Economic and Business Conditions Report - Second Quarter 2017

Richard A. MacDonald
St. Cloud State University, macdonald@stcloudstate.edu

King Banaian
St. Cloud State University, kbanaian@stcloudstate.edu

Northeast Minnesota
Economic and Business Conditions Report
Second Quarter 2017

This issue is part of a series for the six planning areas of Minnesota – Central, Northeast, Northwest, Southeast, Southwest, and Twin Cities. The Northeast Minnesota Planning Area consists of seven counties: Aitkin, Carlton, Cook, Itasca, Koochiching, Lake and St. Louis.

Office of the Minnesota
Secretary of State

School of Public Affairs
Research Institute
St. Cloud State University

TABLE OF CONTENTS

Executive Summary.. 1

Northeast Minnesota Leading Economic Indicators Index 2

Northeast Minnesota Business Filings.. 4

Minnesota Business Snapshot Survey Results.. 9

Maps.. 15

Northeast Minnesota Labor Market Conditions 17

Northeast Minnesota Bankruptcies.. 22

Economic Indicators 23

Sources 25

EXECUTIVE SUMMARY

Steady economic growth in Northeast Minnesota is expected over the next several months according to the predictions of the Northeast Minnesota Index of Leading Economic Indicators (LEI). Four of the five components of the LEI increased as the overall index rose 0.68 points in the second quarter. An improvement in a general measure of statewide business conditions, a rise in a supply managers' survey, lower initial jobless claims in the region, and increased new filings of incorporation all helped lift this quarter's index.

There were 681 new business filings with the Office of the Minnesota Secretary of State in Northeast Minnesota in the second quarter of 2017 — representing an 11.8 percent increase from one year earlier. Fifty-eight new regional business incorporations were filed in the second quarter—11.8 percent more than in the same period of 2016. New limited liability company (LLC) filings in Northeast Minnesota rose 29.8 percent to a level of 392. New assumed name filings fell 12.1 percent and there were two fewer non-profits filings compared to one year earlier.

Sixty-four percent of new business filers in the Northeast Minnesota planning area completed the voluntary Minnesota Business Snapshot (MBS) survey in this year's second quarter. Results of this voluntary survey indicate that 4.1 percent of new filers come from communities of color, while nearly 9 percent of new filings come from veterans. Over 4.5 percent of new filers come from the disability community and less than 1 percent of new filings are made by the immigrant community. Forty-three percent of new business filings in Northeast Minnesota in this year's second quarter were initiated by women. MBS results also show that most new business filers in Northeast Minnesota have between 0 and $10,000 in annual gross revenues (although 42 new filers have revenues in excess of $50,000). The most popular industries for new businesses in Northeast Minnesota are construction, retail trade, other services, real estate/rental/leasing, professional/scientific/technical and arts/entertainment/recreation. Employment levels at most new firms are between 0 and 5 workers, and more than half of those starting a new business consider this a part-time activity.

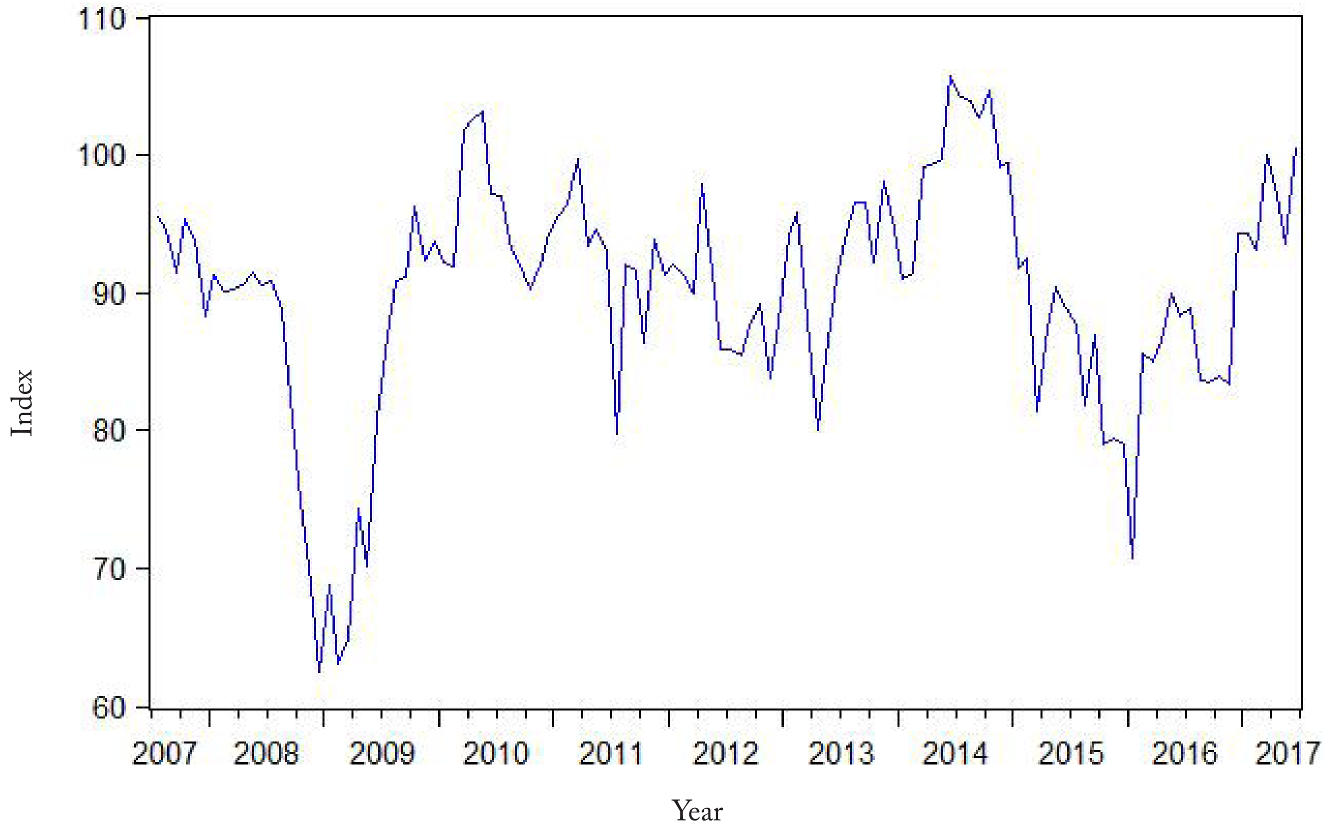
Northeast Minnesota employment was 1.2 percent higher than year ago levels in June. The regional unemployment rate was 5.2% (considerably lower than one year ago) and the labor force rose by 0.2% from one year earlier. June 2017 initial claims for unemployment insurance were nearly 11.3 percent lower than the same month last year but the region's average weekly wages flattened out. Annual bankruptcies in Northeast Minnesota continue to fall.

Economic activity in the Duluth/Superior Metropolitan Statistical Area (MSA) was strong. Northeast Minnesota's largest market experienced a 2.8 percent increase in overall employment over the year ending June 2017, and it added jobs in its key education/health and manufacturing sectors. The area unemployment rate fell to 4.8 percent, and the labor force rose 1.4 percent. Average weekly work hours rose 2.4 percent, but average hourly earnings fell. The value of residential building permits jumped 75.7 percent compared to June 2016.

NORTHEAST MINNESOTA LEADING ECONOMIC INDICATORS INDEX

The SCSU Northeast Minnesota Leading Economic Indicators Index (LEI) is designed to predict performance of the regional economy with a four-to-six month lead time. After a revised 5.81 point rise in this year's first quarter, this quarter's LEI levelled out, rising by 0.68 points. The LEI is now 13.9 percent above its June 2016 level. As can be seen in the accompanying figure, the LEI has generally drifted upward since the beginning of 2016.

The SCSU Northeast Minnesota Leading Economic Indicators Index



Components of SCSU Northeast Leading Economic Indicators Index

Component of Index	Contribution to LEI, 2nd quarter 2017	Contribution to LEI, 1st quarter 2017
Minnesota Business Conditions Index	1.99	3.48
Northeast Minnesota initial claims for unemployment insurance	0.56	-0.76
Northeast Minnesota new filings of incorporation	0.62	0.71
Duluth Superior MSA residential building permits	-3.01	-0.05
Institute of Supply Management Purchasing Managers Index for manufacturing	0.52	2.43
TOTAL CHANGE	**0.68**	**5.81**

Since an important element of the Northeast Minnesota economy is mining production and shipping of goods used in manufacturing, the Institute of Supply Management's purchasing managers' index is used as a proxy for demand for production in the region. This indicator improved in the second quarter. Stronger performance of the Minnesota Business Conditions Index (which is used as an indicator of general statewide business conditions) lifted the Northeast Minnesota leading index as did lower initial claims for unemployment insurance in the region. A rise in new business filings for incorporation in Northeast Minnesota also had a favorable impact on the LEI. Lower new residential building permits in the Duluth/Superior MSA was the only negative component of this quarter's leading index.

SCSU Northeast Minnesota Leading Economic Indicators Index	2017	2016	Percentage change
Minnesota Business Conditions Index June	68	51.2	32.8%
Northeast Minnesota initial claims for unemployment insurance, June	1,041	1,173	-11.3%
Northeast Minnesota new filings of incorporation Second Quarter	58	53	9.4%
Duluth-Superior MSA single-family building permits June	14	14	0.0%
Institute for Supply Management Purchasing Managers' Index, manufacturing sector, June	57.8	53.2	8.6%
Northeast Minnesota Leading Economic Indicators Index June (December 1999 = 100)	100.6	88.3	13.9%

NORTHEAST MINNESOTA BUSINESS FILINGS

Total new business filings jumped by 11.8 percent compared to the second quarter of 2016. After trending upward since the end of 2011, the 12-month moving total of this series had flattened out in recent quarters. But the strong numbers in the second quarter have once again helped lift this series. Note, however, that new business filings in Northeast Minnesota still have not returned to the pace observed prior to the Great Recession.

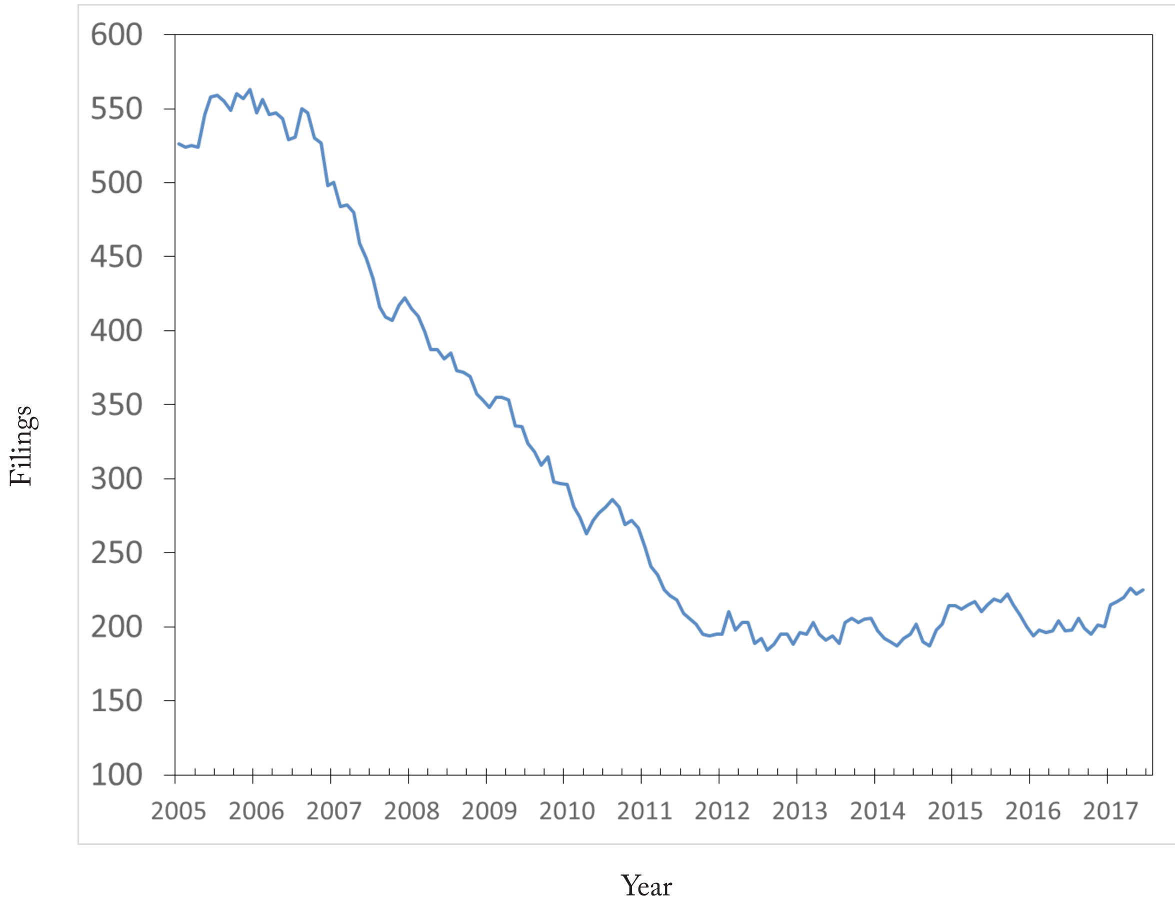
Note: The graphs in this section show the 12-month moving total for the various new business filings in Northeast Minnesota that are registered with the Office of the Minnesota Secretary of State. This adjustment is used to remove seasonal patterns in the data.

Total New Business Filings—Northeast Minnesota Planning Area
(12-month moving total)

Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Northeast Minnesota Total New Business Filings	584	479	496	626	653	11.8%

New filings for business incorporation swelled in this year's second quarter. Compared to the second quarter of 2016, new filings of incorporation in Northeast Minnesota were 9.4 percent higher. As can be seen in the graph, after a five year period in which it flattened out, the 12 month moving total of Northeast Minnesota new business incorporations has begun to rise in 2017.

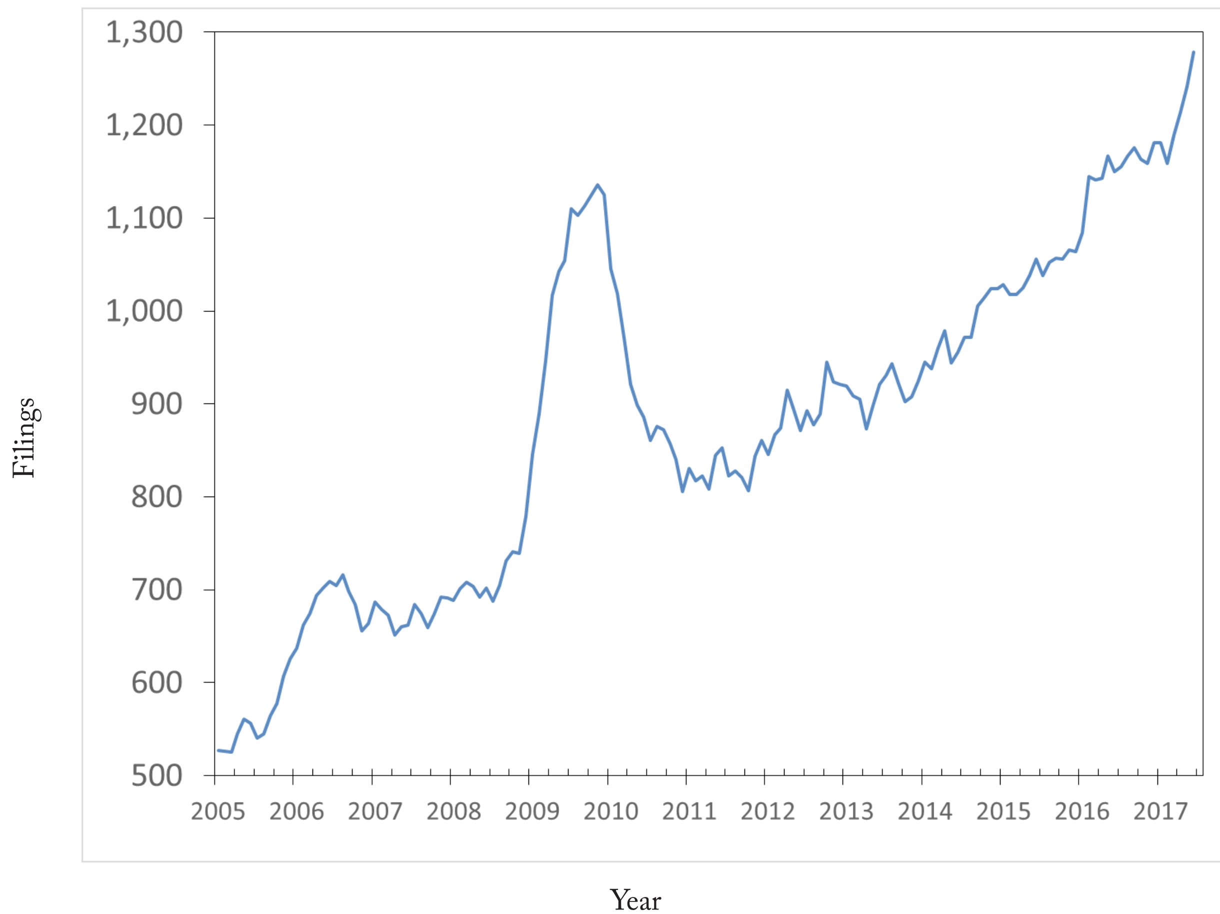
New Incorporations—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Northeast Minnesota New Business Incorporations	53	48	48	71	58	9.4%

Throughout Minnesota, there has been a move away from the traditional corporate form of business organization toward the LLC. LLCs are increasingly useful in evaluating regional economic performance. As seen below, there is a considerable upward trend in LLCs in Northeast Minnesota. This trend continued in the second quarter as new LLC filings surged by 29.8 percent compared to the same period one year earlier. Note that an abrupt increase in new LLC filings was observed in 2008. This increase (which graphically looks like a shark fin) was related to considerably higher filings in the construction industry and appears to be a one-time only transitory event seen in the data in all regions of Minnesota.

New Limited Liability Companies—Northeast Minnesota Planning Area (12-month moving total)



Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Northeast Minnesota New Limited Liability Companies	302	271	271	345	392	29.8%

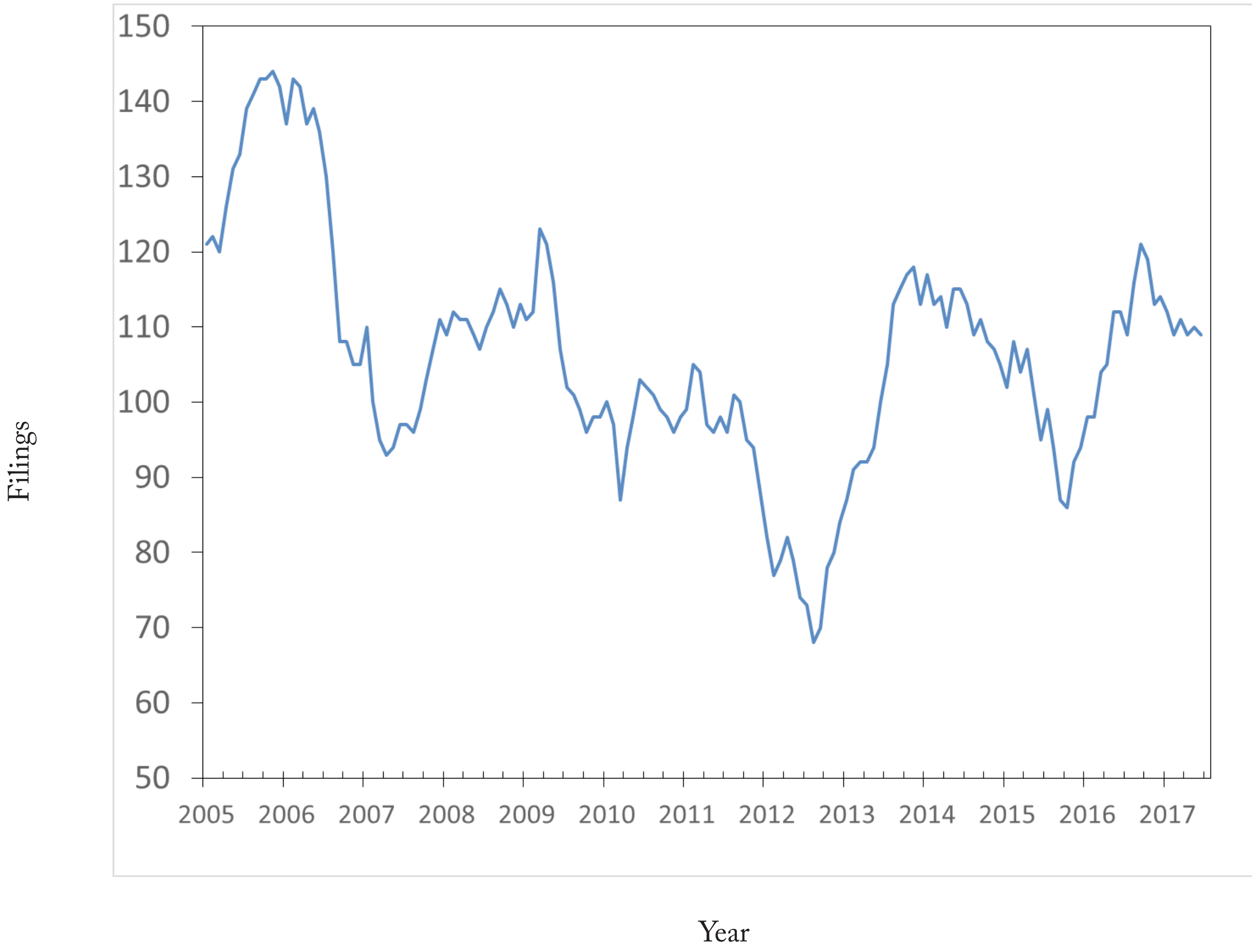
Compared to the second quarter of 2016, assumed names fell by 12.1 percent in Northeast Minnesota. After leveling out from 2011 to 2014, new assumed names filings in Northeast Minnesota declined precipitously in 2014. This series has now been trending downward for the past several quarters and still remains well below its level of the mid-2000s.

New Assumed Names—Northeast Minnesota Planning Area (12-month moving total)

Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Northeast Minnesota New Assumed Names	199	134	155	177	175	-12.1%

There were 28 new Northeast Minnesota non-profits registered with the Office of the Minnesota Secretary of State in the second quarter of 2017, two fewer than were recorded one year ago.

New Non-Profits—Northeast Minnesota Planning Area (12-month moving total)



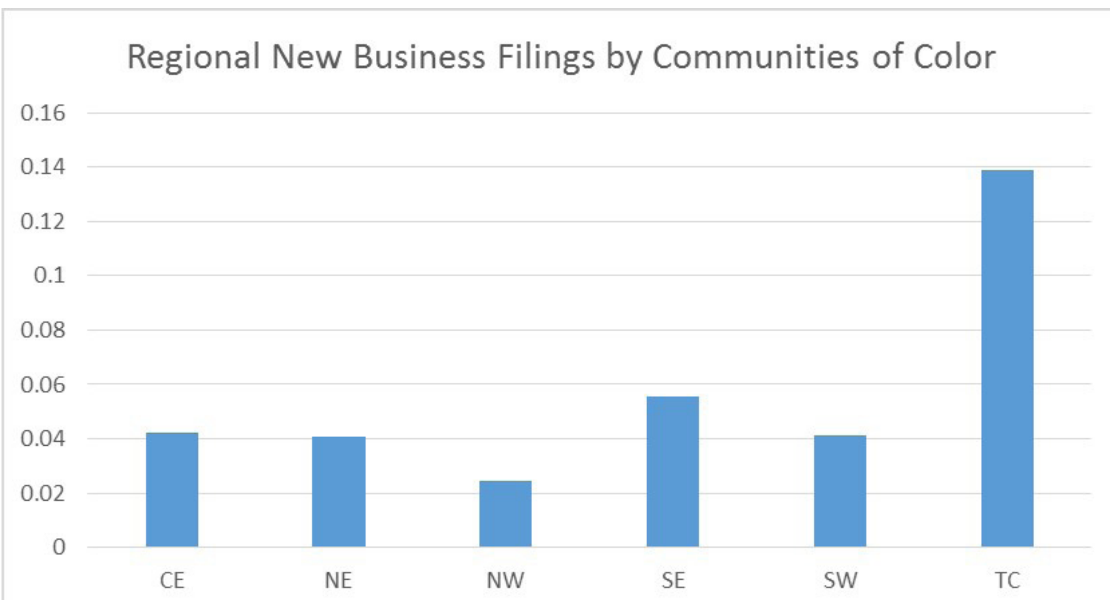
Quarter	II: 2016	III: 2016	IV: 2016	I: 2017	II: 2017	2017 Quarter II: Percent change from prior year
Northeast Minnesota New Non-Profits	30	26	22	33	28	-6.7%

MINNESOTA BUSINESS SNAPSHOT SURVEY RESULTS

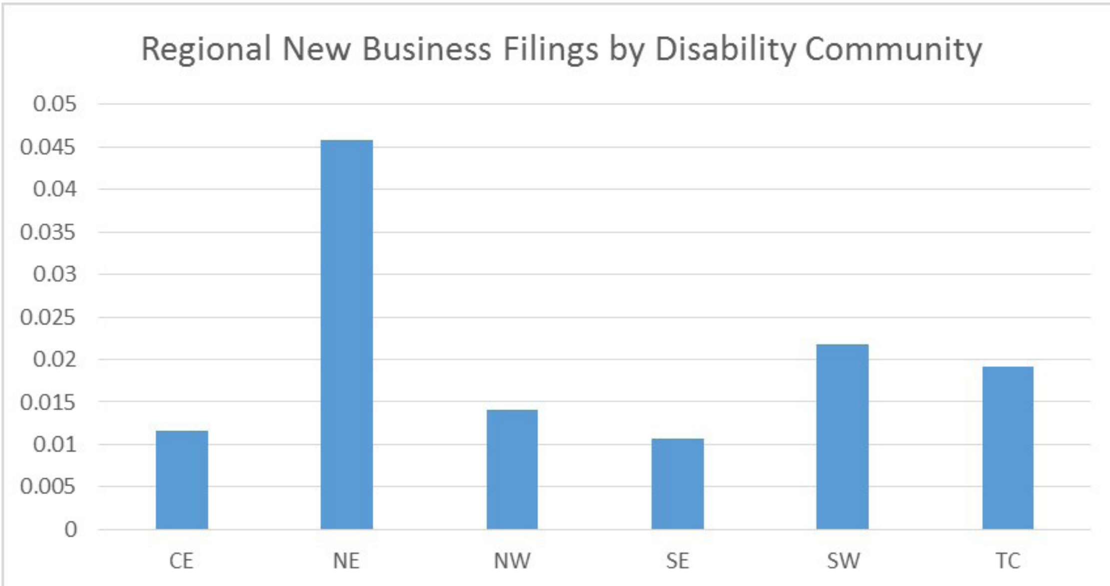
In Fall 2016, the Office of the Minnesota Secretary of State initiated a short voluntary survey (known as Minnesota Business Snapshot) for both new and continuing business filers. Questions found in the survey address basic questions related to the background of business filers, industry classification, employment levels and annual revenue of the filer, and whether the business is a full- or part-time activity for the filing entity. While a comprehensive analysis of this promising new data set is the beyond the scope of this regional economic and business conditions report, the survey results do provide useful additional background information to complement the business filing data.

To match up the Minnesota Business Snapshot (MBS) information with the data analyzed in this report, only surveys accompanying new filings in the second quarter of 2017 are analyzed. For the entire State of Minnesota, the overall response rate for this voluntary survey is approximately 61 percent. This yields thousands of self-reported records in this emerging data set. For Northeast Minnesota, about 64 percent of new business filers completed at least some portion of the MBS survey. The results are reported in this section.

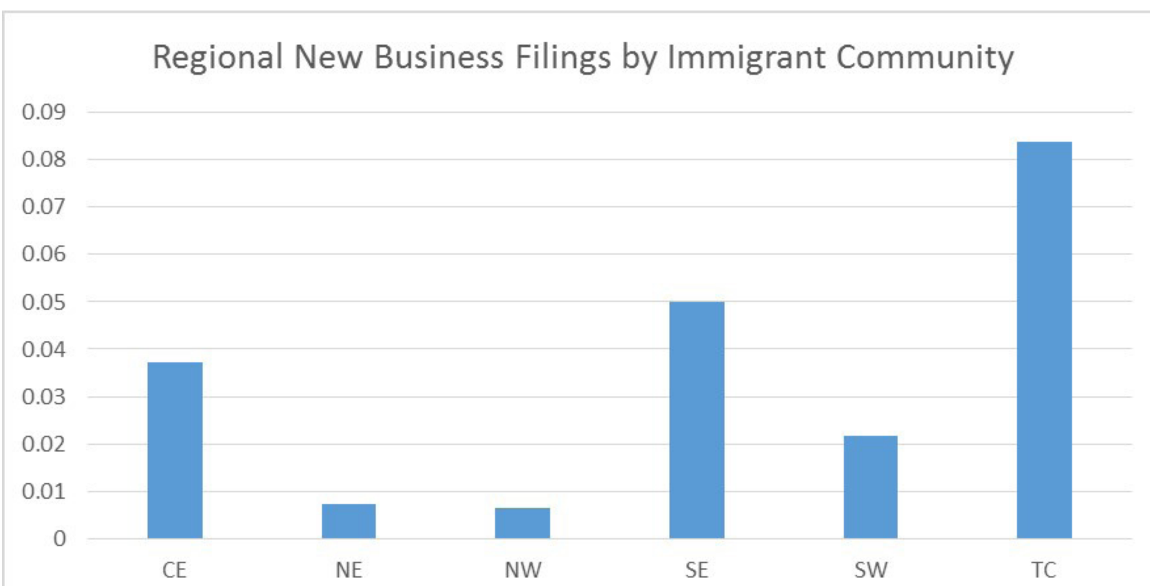
Approximately 4 percent of those new filers completing the MBS from the Northeast Minnesota planning area report being from a community of color. This was the lowest percentage of any of Minnesota's six planning areas last quarter, but it is now higher than the northwest planning area and largely the same as the central and southwest regions.



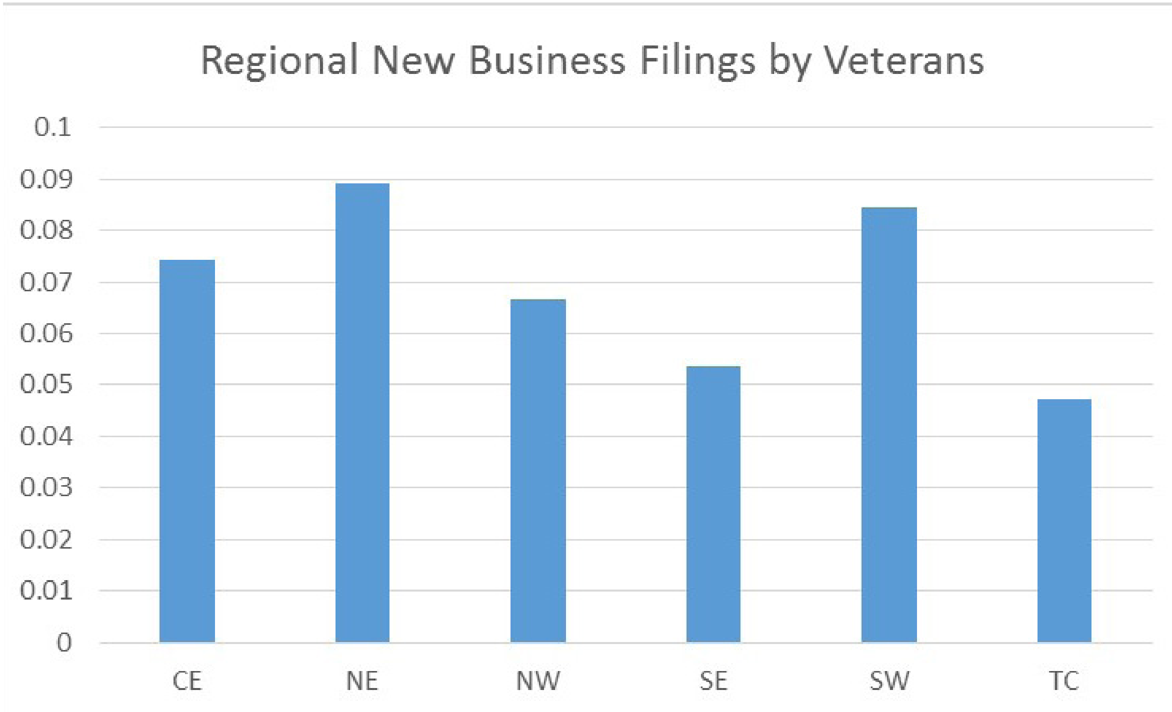
Nearly 5 percent of Northeast Minnesota's new filers are from the disability community. This is larger than any of the planning areas in the state.



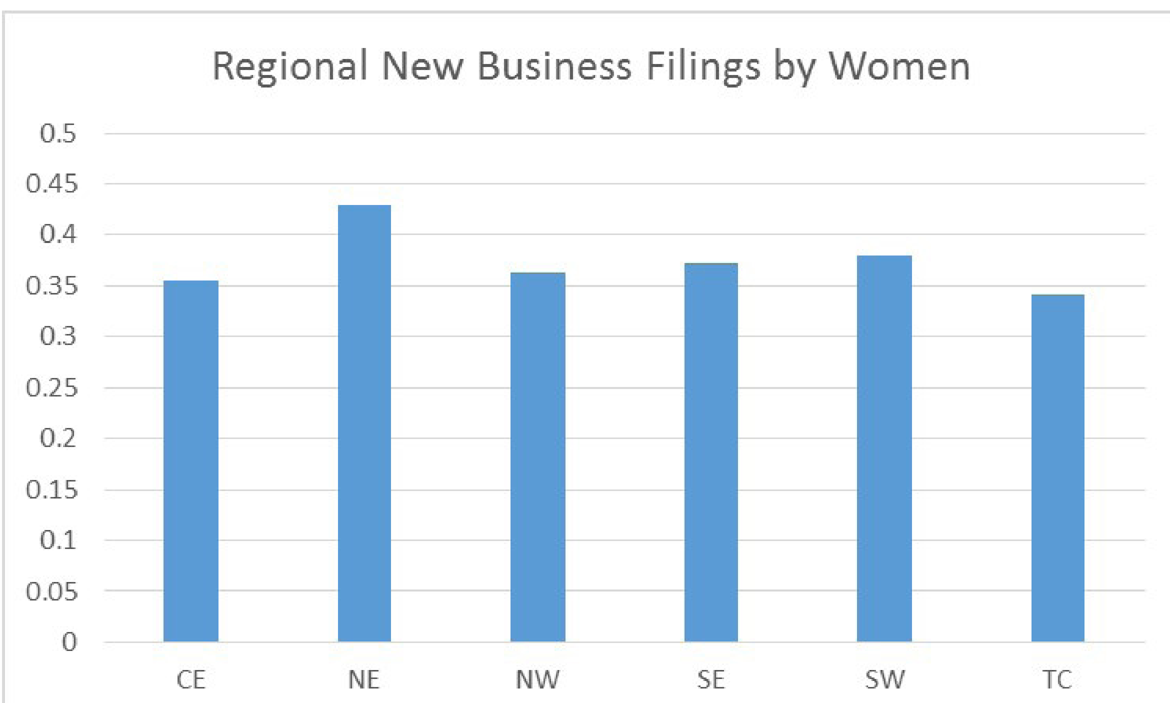
Very few new business filings in Northeast Minnesota come from the immigrant community. The percentages of immigrant new business filings in the northeast and northwest portions of the state are well below what is seen in the other planning areas.



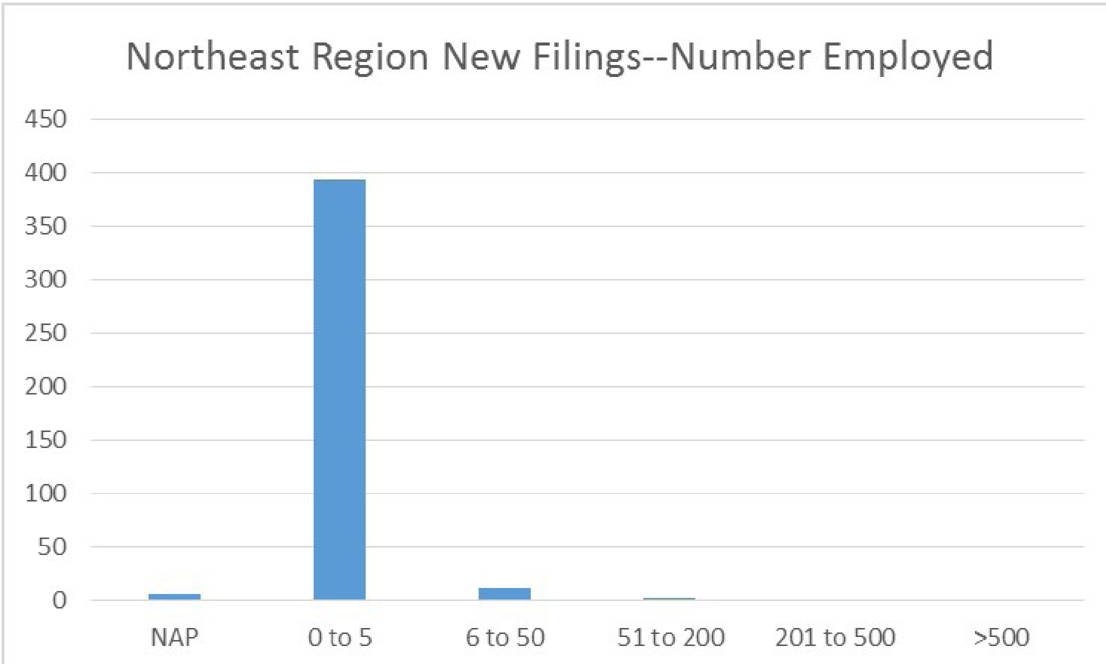
Almost 9 percent of all new filings in Northeast Minnesota came from military veterans in the second quarter of 2017. This is higher than in any of Minnesota's other planning areas.



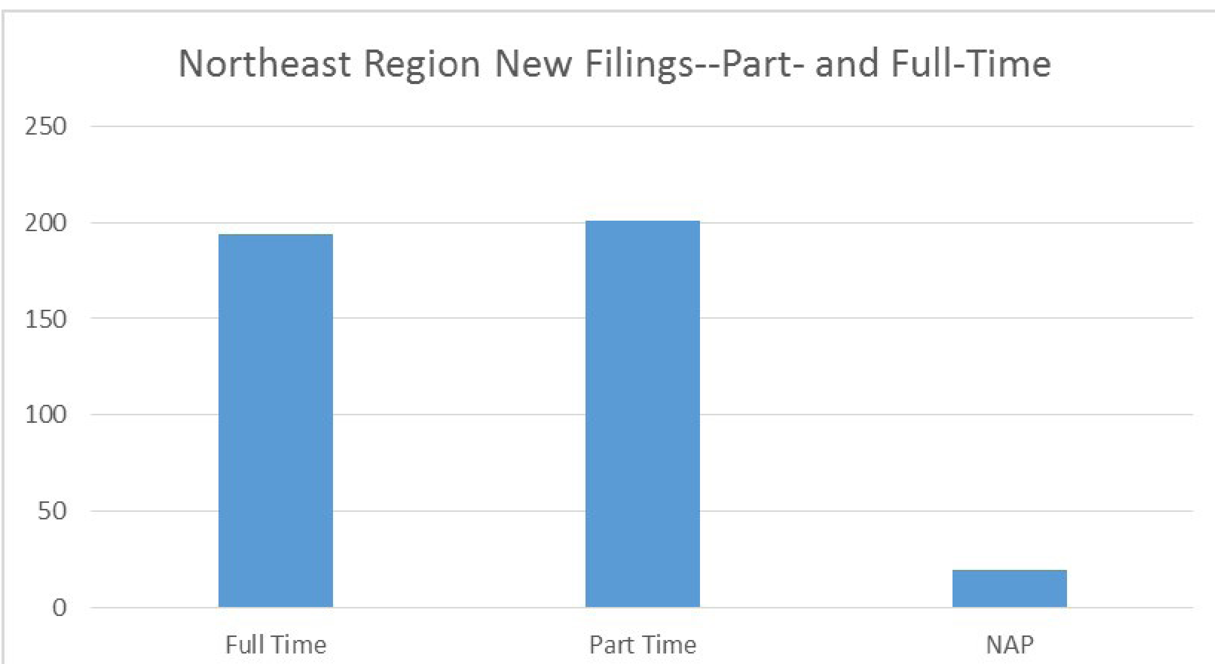
Woman owners represented approximately 43 percent of the new business filings in Northeast Minnesota in the second quarter of 2017.



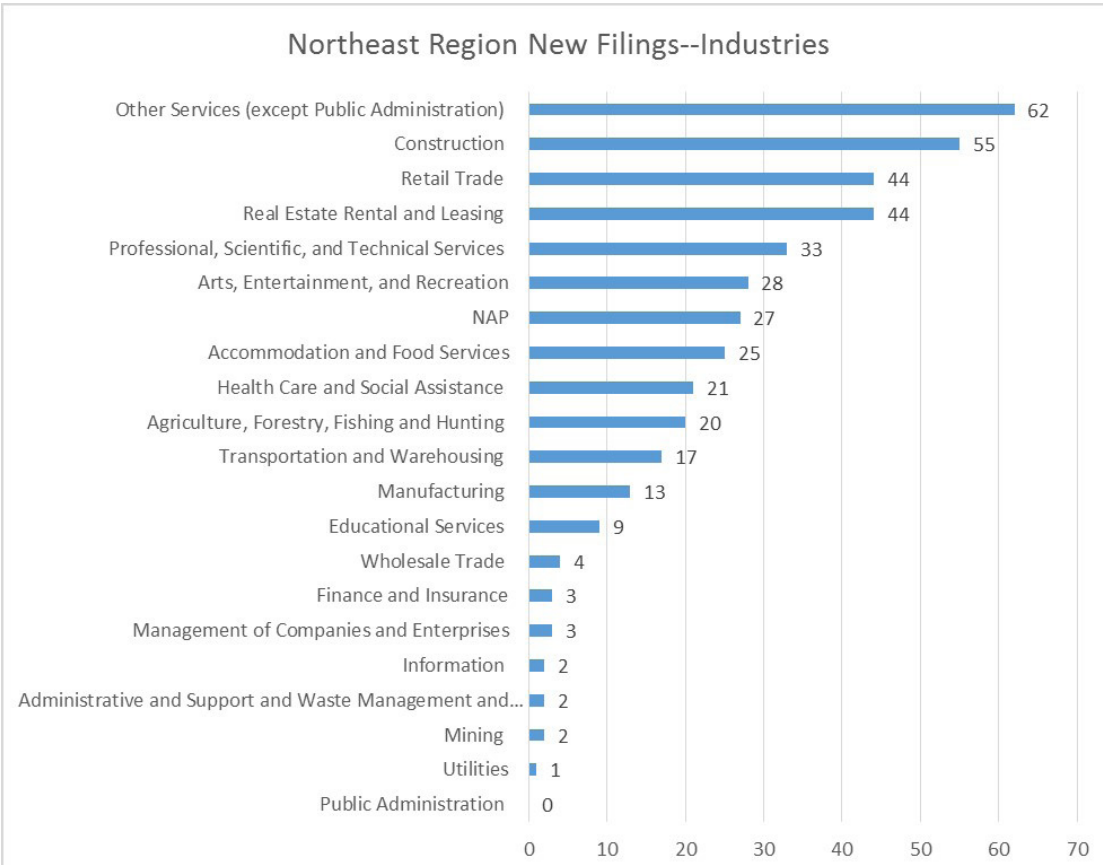
While not all of those participating in the survey completed all portions of the Minnesota Business Snapshot (those not responding to a particular question are represented in this section by "NAP"—no answer provided), more than 400 responses were tallied to a question asking the new business filer to indicate the range of employment at the business. As expected, most new businesses start small—employment at most companies submitting a new filing ranges from 0-5 employees.



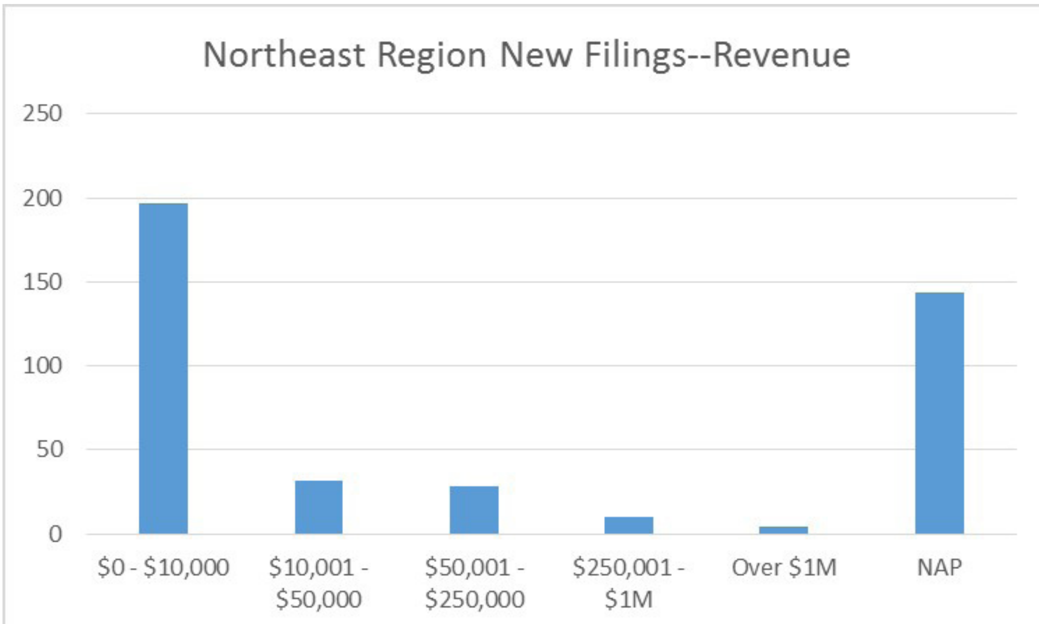
More than half of those submitting a new business filing in Northeast Minnesota are part-time ventures.



Using the North American Industry Classification System (NAICS), businesses submitting new filings were asked to identify the industry in which their company was operating. While a range of industries were reported, construction, retail trade, real estate, rental and leasing, and "other services" lead the way. Since businesses are often unsure of their industrial classification, the "other services" category is likely to represent a "catch-all" category for service-related businesses who were unable to specify their industry. Professional, scientific, and technical services and arts, entertainment, and recreation are also well represented in the sample. Twenty-seven new firms did not provide an answer to this survey item (see "NAP")



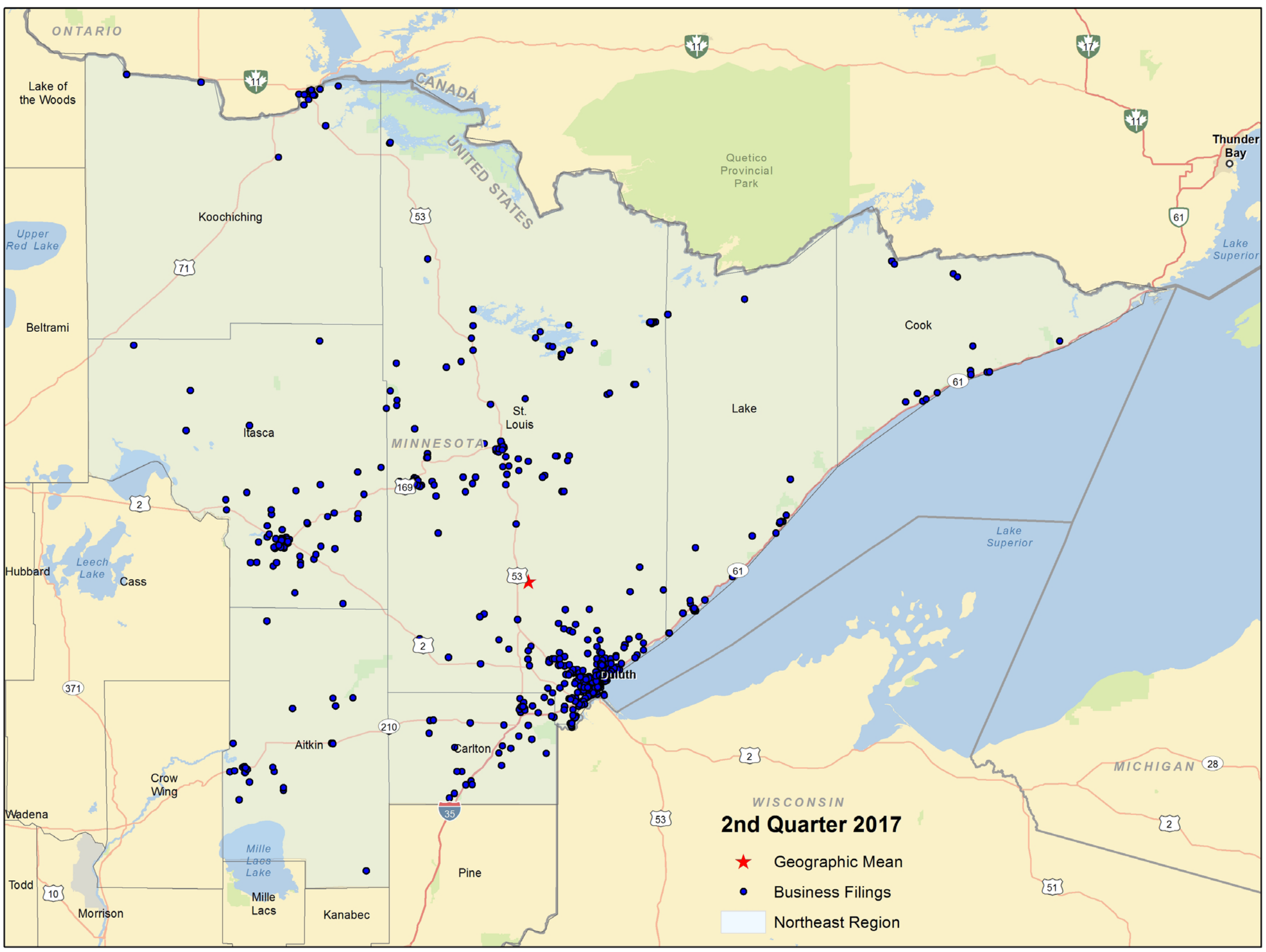
More than 100 new business filers in Northeast Minnesota did not provide an answer to the MBS item that asked them to report the company's revenue. Of those businesses that answered the question, the largest share report revenues of less than $10,000. Forty-two new firms report revenues in excess of $50,000.



MAPS

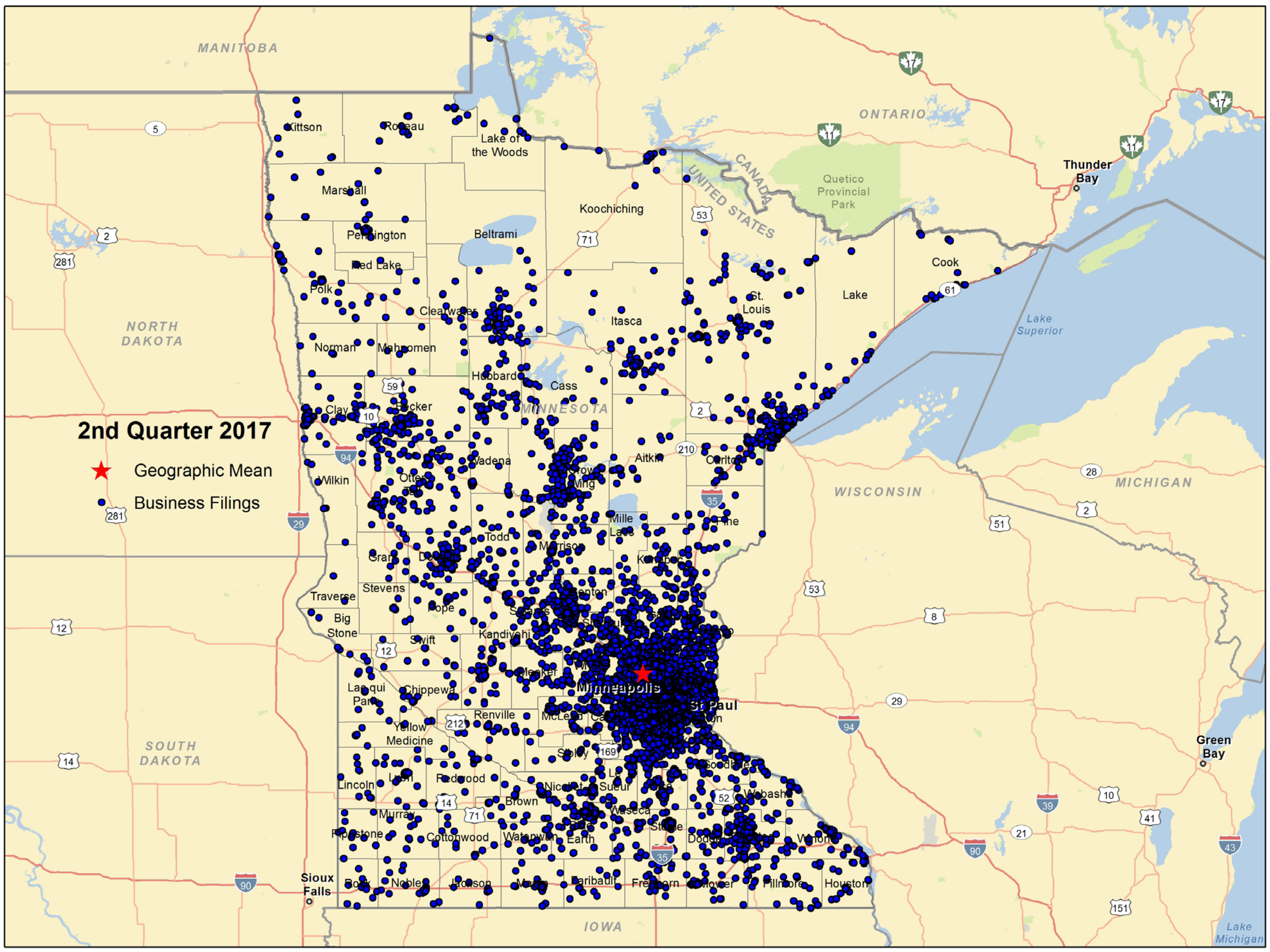
The first map shown below is a visual representation of new business formation around the Northeast Minnesota planning area in the second quarter of 2017. The densest areas of new business formation are in the Duluth metro as well as along the region's well-traveled roadways. There was a noticeable cluster of new business formation along Highway 169 (in the Virginia-Hibbing-Grand Rapids corridor) as well as along Highway 61 and on the Canadian border in International Falls.

Northeast Minnesota Planning Area--New Business Formation--Quarter 2: 2017



The second map shows new business filings for the state as a whole. This visual aid demonstrates the considerable extent to which the Twin Cities metro area dominates new business formation in the state. The map shows how the Twin Cities metro stretches along roadways into the Southeast, Southwest and Central planning areas. The map demonstrates the importance of cities and roadways in encouraging economic development. St. Cloud now appears to be integrated into the Twin Cities metro as the I-94/US-10 corridor continues to be a magnet for new business formation. The importance of Interstates 90 and 35 as well as US-10 and MN 61 (along the North Shore) in new business filings is also easily seen in this map.

Minnesota--New Business Formation--Quarter 2: 2017

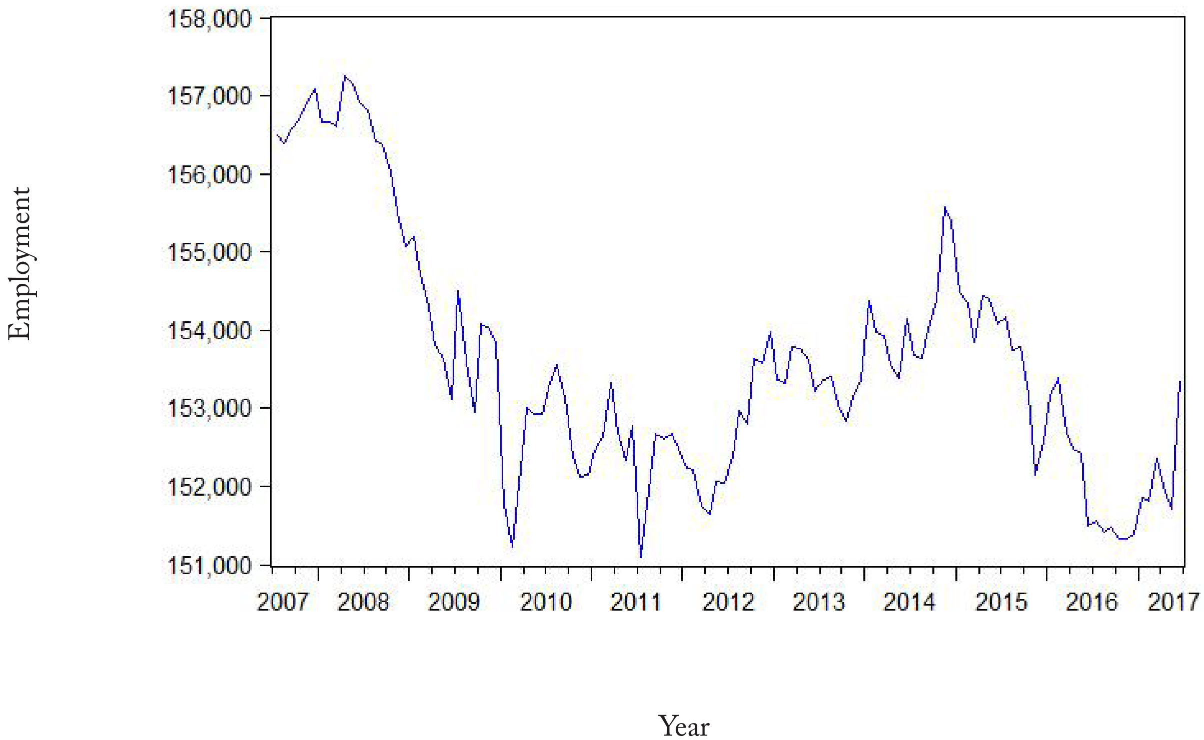


NORTHEAST MINNESOTA LABOR MARKET CONDITIONS

June 2017 employment in the Northeast Minnesota planning area was 1.2 percent higher than it was one year earlier. Using a 12-month moving average to remove seasonal employment patterns (see graph below), the current level of employment has been rising over the past three quarters.

Note: seasonally adjusted labor market data are typically not available to evaluate regional economic performance so some series have been created to illustrate seasonal patterns of the regional labor market. Graphs of these indicators are found in this section of the report. Tabular data are not seasonally adjusted.

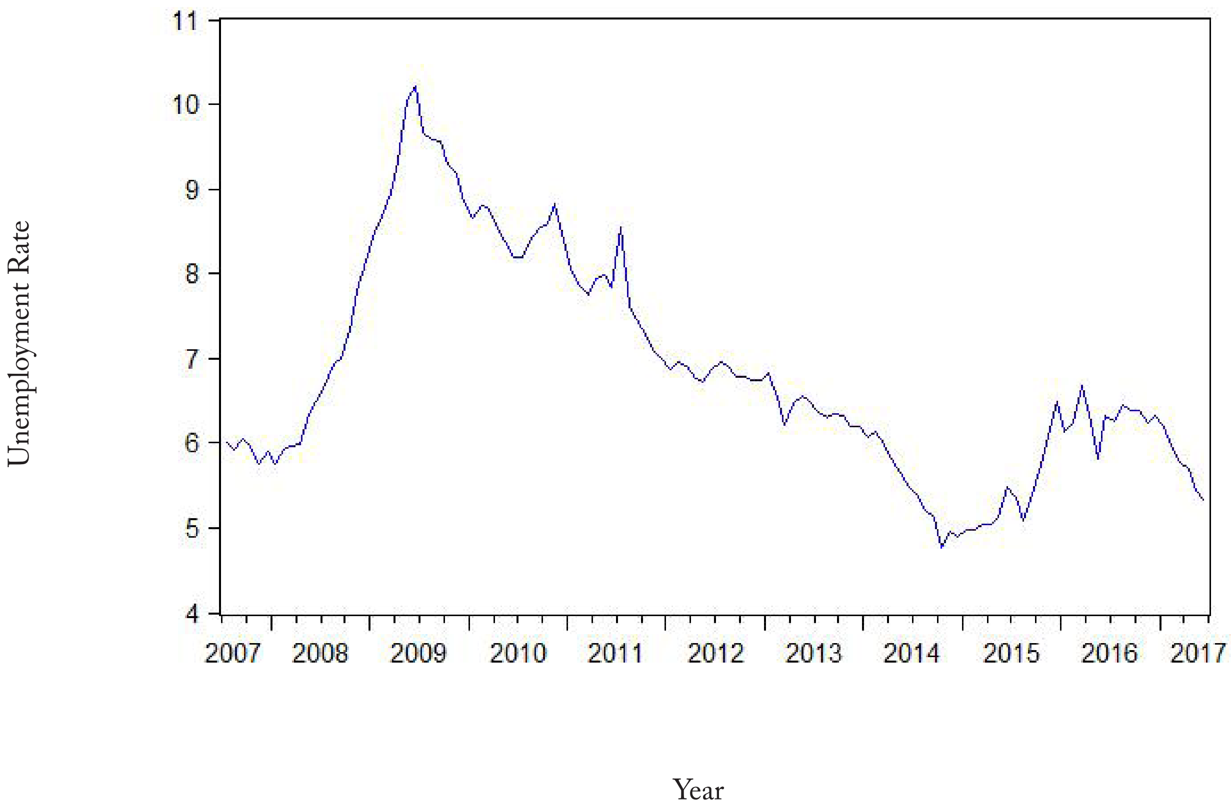
Employment—Northeast Minnesota Planning Area (12-month moving average)



Month	June 2016	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017
Employment (Not seasonally adjusted)	153,346	148,492	149,826	150,554	150,947	152,627	155,236

The seasonally adjusted unemployment rate in Northeast Minnesota had been trending upward since the end of 2014. However, this series has been declining in recent quarters. At 5.2 percent, the non-seasonally adjusted rate is considerably lower than one year earlier. However, the unemployment rate in Northeast Minnesota is still higher than in any of Minnesota's other five planning areas.

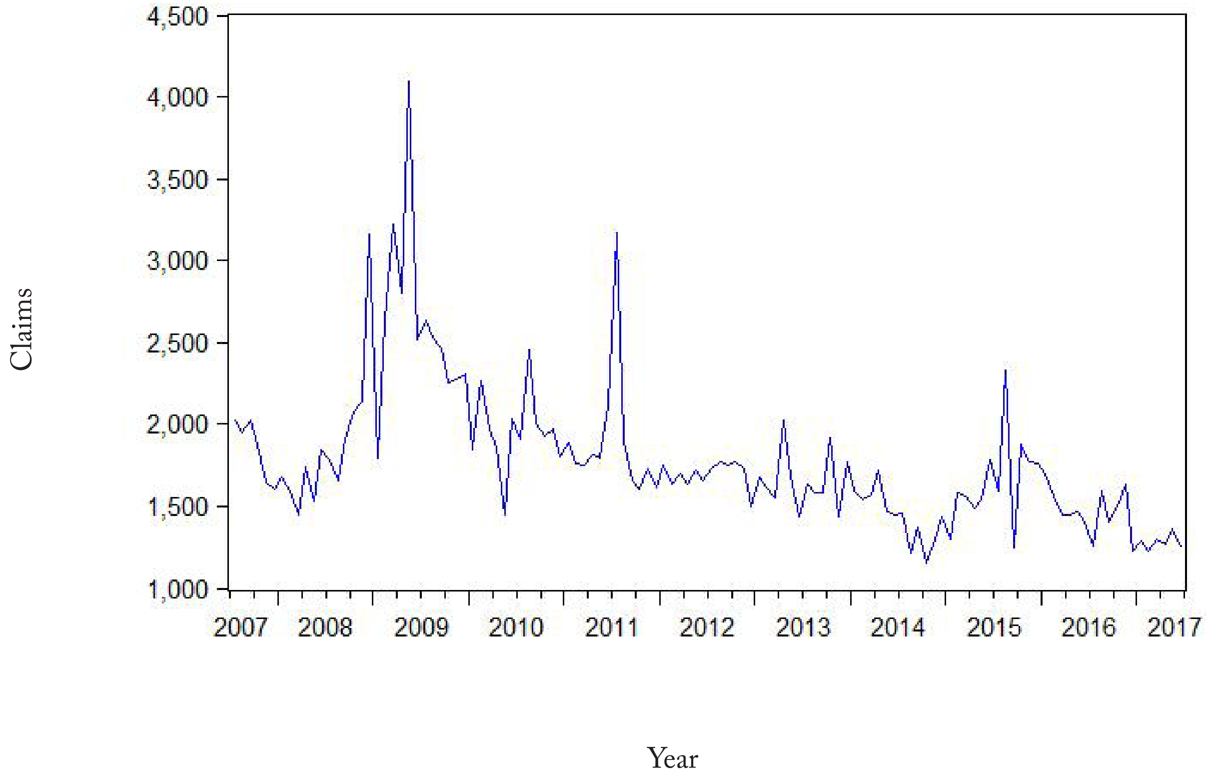
Unemployment Rate, seasonally adjusted—Northeast Minnesota Planning Area



Month	June 2016	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017
Unemployment Rate (Not seasonally adjusted)	6.2%	7.6%	7.0%	6.8%	6.1%	5.1%	5.2%

On a seasonally adjusted basis, initial jobless claims in the Northeast region have flattened out this year. This quarter's initial jobless claims fell by 11.3% compared to one year earlier.

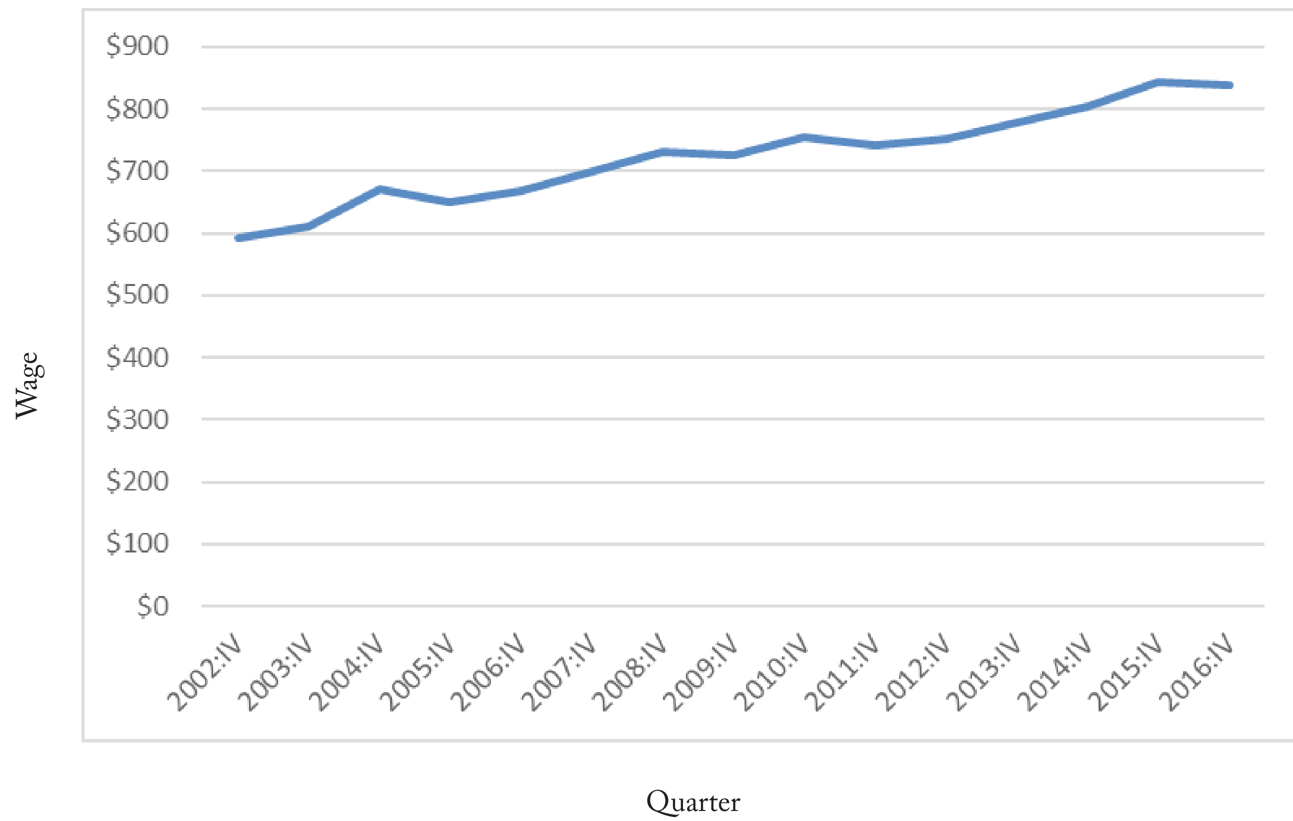
Total Initial Claims for Unemployment Insurance, seasonally adjusted—Northeast Minnesota Planning Area



Period	June 2016	January 2017	February 2017	March 2017	April 2017	May 2017	June 2017
Initial claims (Not seasonally adjusted)	1,173	1,488	1,052	1,274	1,032	1,180	1,041

Average weekly wages in Northeast Minnesota were lower in last year's fourth quarter than they were one year earlier. This same pattern is observed in all of Minnesota's other planning areas. Wage pressures resulting from labor shortages around the state would seem to call into question whether declining wages are actually being observed in Minnesota's six planning areas. It seems possible that these figures will be revised as more information becomes available.

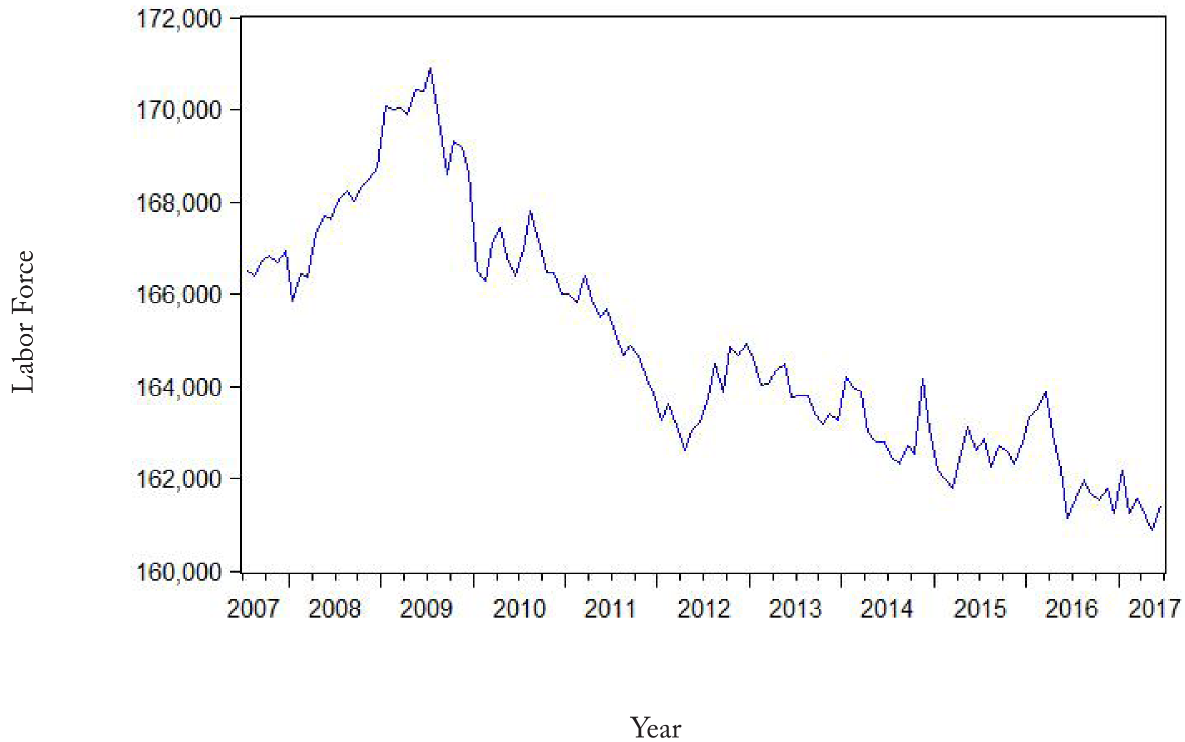
Average Weekly Wage---Northeast Minnesota Planning Area



Quarter	2011:IV	2012:IV	2013:IV	2014:IV	2015:IV	2016:IV
Average Weekly Wage	$742	$753	$777	$804	$844	$838

The Northeast Minnesota labor force rose by 0.2 percent over the past year. Using a 12-month moving average to account for seasonality, the regional labor force numbers have leveled off in 2017. Note that the northwest and southwest planning areas are seeing their workforce decline on a year-over-year basis.

Labor Force—Northeast Minnesota Planning Area (12-month moving average)

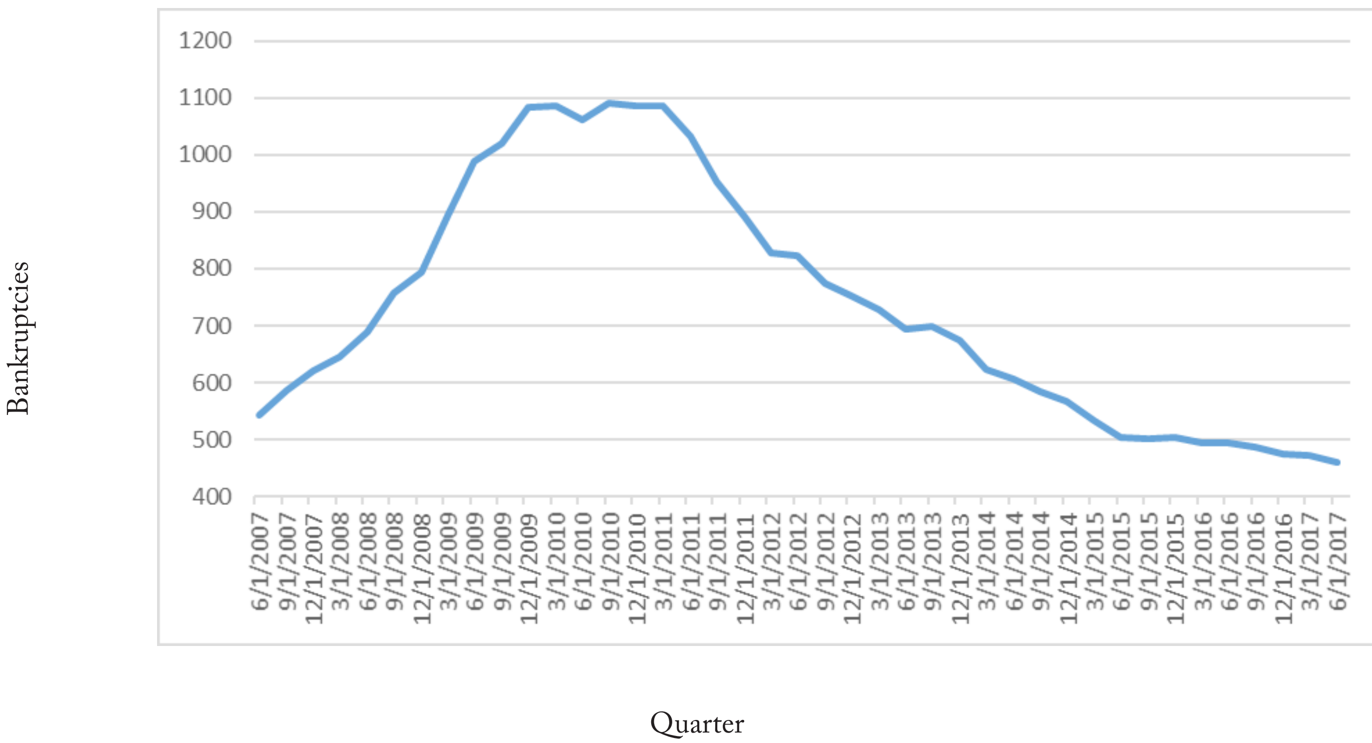


Year (June)	2012	2013	2014	2015	2016	2017
Labor Force (Not seasonally adjusted)	165,423	165,957	164,999	164,827	163,404	163,689

NORTHEAST MINNESOTA BANKRUPTCIES

The figure below shows the 12-month moving total for Northeast Minnesota bankruptcies since the second quarter of 2007 (shortly before the beginning of the Great Recession). As can be seen in the figure, this moving total increased until the third quarter of 2009, then leveled out for a few quarters. The series has gradually declined since the beginning of 2011.

Northeast Minnesota Bankruptcies (12-month moving total)



Year (Second Quarter)	2012	2013	2014	2015	2016	2017
Annual Bankruptcies (Not seasonally adjusted)	824	694	605	504	495	461

Duluth-Superior MSA Indicators	Period Covered	Current Period	Prior Year	Annual Percent Change	Long-Term Average (since 1999, unless noted)
Employment	June 2017 (m)	139,041	135,267	2.8% ↑	0.3%
Manufacturing Employment	June 2017 (m)	7,456	7,436	0.3% ↑	-1.6%
Educational and Health Sector Employment	June 2017 (m)	32,089	30,987	3.6% ↑	2.8%
Average Weekly Work Hours-Private Sector	June 2017 (m)	34.1	33.3	2.4% ↑	32.6
Average Earnings Per Hour-Private Sector	June 2017 (m)	$24.02	$24.14	-0.5% ↓	3.2%
Unemployment Rate	June 2017 (m)	4.8%	5.8%	NA ↓	6.1%
Labor Force	June 2017 (m)	144,170	142,206	1.4% ↑	-0.5%
Duluth-Superior Residential Building Permit Valuation, in thousands	June 2017 (m)	2,974	1,693	75.7% ↑	NA

(m) represents a monthly series

Northeast Minnesota contains the Duluth/Superior MSA, where economic performance was strong in the recent quarter. Overall employment rose by 2.8 percent over the year ending June 2017 and employment in the key education/health and manufacturing sectors also rose. Average weekly work hours increased, but average hourly earnings fell. The area unemployment rate decreased and the MSA's labor force rose by 1.4 percent. The value of residential building permits in the Duluth/Superior MSA surged by 75.7 percent.

STATE AND NATIONAL INDICATORS

MINNESOTA Indicators	Jun 2017	Mar 2017	Jun 2016	Change from one quarter ago	Annual Change
Nonfarm payroll employment, SA	2,947,200	2,929,300	2,884,600	0.6%	2.2%
Average weekly hours worked, private sector	34.2	33.8	34.3	1.2%	-0.3%
Unemployment rate, seasonally adjusted	3.7%	3.8%	3.9%	NA	NA
Earnings per hour, private sector	$27.91	$28.28	$26.64	-1.3%	4.8%
Philadelphia Fed Coincident Indicator, MN	198.59	196.51	192.04	1.1%	3.4%
Philadelphia Fed Leading Indicator, MN	1.66	2.96	1.10	-43.9 %	50.9%
Minnesota Business Conditions Index	68.0	61.8	51.6	10%	31.8%
Price of milk received by farmers (cwt)	$17.50	$17.50	$15.00	0%	16.7%
Enplanements, MSP airport, thousands	1,735.4	1,731.6	1,726.5	0.2%	0.5%
NATIONAL Indicators	**Jun 2017**	**Mar 2017**	**Jun 2016**	**Change from one quarter ago**	**Annual Change**
Nonfarm payroll employment, SA, thousands	146,406	145,823	144,166	0.4%	1.6%
Industrial production, index, SA	105.2	103.8	103.1	1.3%	2.0%
Real retail sales, SA ($)	194,230	194,046	191,965	0.1%	1.2%
Real personal income less transfers ($, bill.)	12,049.7	12,015.4	11,920.9	0.3%	1.1%
Real personal consumption expenditures ($, bill.)	11,849.8	11,816.1	11,575.3	0.3%	2.4%
Unemployment rate, SA	4.4%	4.5%	4.9%	NA	NA
New building permits, SA, thousands	25,160	22,864	22,644	10.0%	11.1%
Standard & Poor's 500 stock price index	2,434.0	2,366.9	2,083.9	2.8%	16.8%
Oil, price per barrel in Cushing, OK	$45.18	$49.33	$48.76	-8.4%	-7.3%

Across the state, nearly all year-over year categories of economic performance found in the State and National Indicators table are favorable. There was growth in payrolls, higher earnings per hour, and a lower seasonally adjusted unemployment rate over the past twelve months. Coincident and leading indicators from the Federal Reserve Bank of Philadelphia are both higher than one year earlier and the Minnesota Business Conditions index rose nearly 32 percent. Milk prices are higher than one year ago and enplanements at the Minneapolis-St. Paul airport increased by 0.5 percent over the last twelve months. Average weekly work hours in the state's private sector are reported lower by 0.3% over the past twelve months. This is the only indicator with a negative year-over-year reading in the state portion of the indicators table.

The national economic indicators found in the table reinforce the strong economic outlook found throughout this report. Over the past twelve months, stock prices rose, employment increased, and real income and consumer expenditures expanded. The national unemployment rate fell and retail sales improved. Industrial production picked up. National building permits were also higher. Lower oil prices in the second quarter have favorably impacted the discretionary income of households, but they also have harmed the economic well-being of those employed in the energy sector (which has been struggling in recent years).

The Northeast Minnesota Quarterly Economic and Business Conditions Report is a collaboration between the Office of the Minnesota Secretary of State and the School of Public Affairs Research Institute (SOPARI) of St. Cloud State University. All calculations and text are the result of work by SOPARI, which is solely responsible for errors and omissions herein.

Text authored by Professors King Banaian and Rich MacDonald of the Economics Department of St. Cloud State University. Research assistance provided by Alex Franta and Natalie Hughes. Professor David Wall of the SCSU Geography Department provided GIS assistance.

Sources

Council for Community and Economic Research: Cost of Living Index.

Creighton University Heider College of Business: Minnesota Business Conditions Index, Rural MainStreet Index.

Federal Reserve Bank of Philadelphia: Minnesota Coincident Indicator Index, Minnesota Leading Indicators Index.

Federal Reserve Board of Governors: Industrial Production.

Institute for Supply Management: Manufacturing Business Survey, Purchasing Managers Index.

Metropolitan Airports Commission: MSP Enplanements.

Minnesota Department of Employment and Economic Development (and U.S. Department of Labor Bureau of Labor Statistics): Average Hourly Earnings, Average Weekly Work Hours, Employment, Initial Claims for Unemployment Insurance, Job Vacancies, Labor Force, Manufacturing Employment, Unemployment Rate.

Office of the Minnesota Secretary of State: Assumed Names, Business Incorporations, Limited Liability Companies, Non-Profits.

Standard & Poor's: Standard & Poor's 500 Stock Price Index.

Thomson Reuters and University of Michigan, Index of Consumer Sentiment

U.S. Bankruptcy Courts: Bankruptcies

U.S. Bureau of Census: Durable Goods Orders, Housing Permits, Residential Building Permits, Retail Sales.

U.S. Department of Agriculture: Milk Prices.

U.S. Department of Commerce Bureau of Economic Analysis: Real Personal Consumption, Real Personal Income, Real Wages and Salaries.

U.S. Energy Information Administration: Oil Prices.